Conforming Loan Limits For High Cost Areas
By Representative Gary G. Miller (CA-42)

CRS Summary of Section 123: H.R. 1461 sets conforming loan limits and requires the agency to make annual adjustments to the limits based on increases or decreases in a housing price index maintained by the Agency. The accuracy of the housing price index is required to be audited by GAO. For high-cost metropolitan statistical areas, the conforming loan limit is raised to the lesser of 150 percent of the statutory limit or the median home price in that area.

Myth #1: The bill would increase to $540,000 the loan limit on home loans bought by Fannie Mae and Freddie Mac.

Fact: The separate loan limit designation for high cost areas of the country included in H.R. 1461 does not necessarily increase loan limits in those areas to $540,000. Rather, the designation takes median home price into account. Under the bill, loan limits in high-cost areas would be increased to the maximum of an area's median home purchase price, capped at the 150 percent limit currently imposed on Alaska, Hawaii, Guam and the Virgin Islands. If such language was enacted this year, the conforming loan limit in high cost areas would not be allowed to exceed the area's median home price or $539,475, whichever is lower.

Metropolitan Statistical Areas (MSAs) that would qualify for high cost area status:

Metropolitan Statistical Area (MSA)	**Median Home Price** (1st Quarter 2005)	**Current Loan Limit**	**New Loan Limit Under H.R. 1461**
Anaheim/Santa Ana, CA	$656,900	$359,650	$539,475
Boston, MA	$398,300	$359,650	$398,300
Los Angeles Area, CA	$474,700	$359,650	$474,700
New York/N. New Jersey/Long Island, NY/NJ/PA	$435,200	$359,650	$435,200
San Diego, CA	$584,100	$359,650	$539,475
San Francisco Bay Area, CA	$689,200	$359,650	$539,475
Washington, DC/MD/VA/WV	$369,000	$359,650	$369,000
W. Palm Beach/Boca Raton/Delray Beach, FL	$362,800	$359,650	$362,800

Source: National Association of Realtors

Myth #2: This is the first time Congress has allowed loan limits to exceed the national loan limit.

Fact: There is precedent for such an exception from the national loan limit. Under current law, the loan limits for Alaska, Hawaii, Guam, and the Virgin Islands are allowed to exceed the national conforming loan limit by 50 percent, making the loan limit in those states/territories in the 2005 calendar year $539,475.[1] The provision in H.R. 1461 seeks to allow high cost areas the same consideration that Alaska, Hawaii, Guam, and the Virgin Islands receive. It is important to note that the exception for Alaska, Hawaii, Guam, and the Virgin Islands does not take median home price in those states/territories into consideration. Therefore, the median home price could actually be lower in those states/territories than the $539,475 loan limit applied to them. For example, for the first quarter of 2005, the median home price in Honolulu, Hawaii was $529,100 and $244,600 in Anchorage, Alaska both below the $539,475 loan limit for these states. The high cost area provision included in H.R. 1461 takes median home price into account, so that the adjusted loan limit would never exceed the area's median home price.

Myth #3: The higher loan limit would apply nationwide.

Fact: This is inaccurate. The high cost area provision of H.R. 1461 does not alter the national conforming loan limit. For areas of the country that are not high cost, the national conforming loan limit will apply. The legislative language clearly defines high-cost areas as regions where the median purchase price of a home exceeds the national conforming loan limit, which is adjusted annually.

Myth #4: The high cost area provision might let Fannie Mae and Freddie Mac get even larger than they are now at a time Congress is trying to rein in their growth.

Fact: The high cost area provision in the bill will not affect the size of the GSEs' portfolios since the provision is only applicable to the mortgages that are securitized and sold.

Myth #5: This provision will not make a meaningful cost difference for homebuyers.

Fact: The facts do not support such a conclusion. The interest rate difference between a conforming loan and a jumbo loan fluctuates between +.25 and +.40. Based on the current interest rate environment, the monthly payment difference between a conforming loan and a jumbo loan can be as much as $135.00.

Freddie Mac and Fannie Mae are chartered to operate in every district across the country. However, they cannot operate in high cost areas of the country because of current loan limit levels. The result is that conforming loans are not available to middle income families trying to buy a moderately priced home in high cost housing markets.

In Alaska, Hawaii, Guam, and the Virgin Islands, the loan limit is $539,475 – 50 percent higher than loan limits in the rest of the country. The reality is that Alaska, Guam, Hawaii and the Virgin Islands are not the only areas impacted by very high housing costs. Mortgage programs should not discriminate against those homebuyers who live in areas where the median home price exceeds the current maximum mortgage loan limit. If higher limits make sense for Alaska, Hawaii, Guam, and the Virgin Islands, then they certainly make sense for other areas in the country where median home prices exceed current statutory limits. The language included in H.R. 1461 will help ensure all qualified Americans have the same opportunity to become homeowners.

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[1] The Alaska, Hawaii, Guam exception was created in the Housing and Community Development Act of 1980 (P.L. 96-399), which was signed into law on October 8, 1980. This was in the earliest version of the Senate bill, S. 2719, included this language. The Virgin Islands were added to this exception as part of the Housing and Community Development Act of 1992 (P.L. 102-550).